

Steady progress in the agricultural and pastoral industries, culminating in a splendid harvest and an exceptional wool clip for all the eastern states in 1882, was now checked by the drought which affected the seasons of 1884 and 1885.¹ This had no effect, however, upon the buoyant conditions, since the flow of British capital was now so copious that Victorian bankers were forced to discourage its accumulation. Since pastoral and farm properties were no longer attractive as investments owing to the protracted drought, speculation now took that remarkable turn towards mining and town properties which was to be maintained till the close of the boom period. The serious fall in prices² for primary products that was mentioned earlier was balanced, to some extent, by a decline in the price-level for imports; and these fluctuations under ordinary circumstances would have had a depressing effect upon business of all kinds. In fact there was a temporary decline that caused some alarm; but the lavish expenditure of loan money by all the governments, together with the increasing stream of overseas capital, maintained an extraordinary buoyancy that even poor seasons could not depress.

By this time the excessive competition among the financial institutions was producing conditions so menacing that the more soundly based concerns took alarm. The older banks, however, were unable to agree upon a policy that would be adequate under the circumstances, although a new association was formed with the object of controlling interest rates. A far more urgent problem, in view of the influx of capital, was that presented by the exchange rates; but with this the Australian bankers were quite powerless to cope, since it arose from the great volume of funds in London awaiting transfer to Australia. This situation, of course, reacted to the financial discomfort of exporters who, as the only people who were doing anything towards maintaining the solvency of the country, were the very people to be directly penalized by the unfavourable exchange rates.

The return of good seasons, and a slight recovery in the price of wool, set the ball rolling as merrily as ever in all the capitals.

¹ See Harris, *op. cit.*, p. 14, for the effect of the financial situation upon the pastoral industry.

² See Coghlan, *Wealth and Progress of New South Wales, 1897-8*, pp. 133 and 1071, for an analysis of the price situation.